
SOUTHERN SUDAN

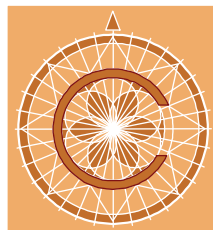


Agricultural Enterprise Finance Program (AEFP)

FOURTH QUARTERLY REPORT

July 1, 2003 – September 30, 2003

Submitted by:



CHEMONICS INTERNATIONAL INC.

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EXECUTIVE SUMMARY

In September 2002, Chemonics International was awarded the Southern Sudan AEFPP contract, a 5-year effort to establish a self-sustaining micro-finance institution (MFI) in Southern Sudan and provide access to working capital for micro-entrepreneurs. AEFPP is a key part of the \$22.5 million Southern Sudan Agricultural Revitalization Program (SSARP), which is managed by the USAID Regional Economic Development Services Office for East and Southern Africa (REDSO/ESA), in close consultation with agriculture advisors based in USAID/Washington.

Key AEFPP accomplishments and activities during this reporting period:

- Hired two loan officers and a bookkeeper for the Yei branch.
- Conducted two weeks of intensive training in microfinance for all of SSAEFI's Yei staff.
- Conducted an additional two weeks of "on-the-job" training for four of the Yei staff at Uganda Microfinance Union (UMU) in various branch offices throughout Uganda.
- Held first two Board meetings with SSAEFI's Board of Directors, which included basic training and information on governing a microfinance institution.
- Opened SSAEFI for business, operating out of a temporary office in Yei while construction of the new office is completed.
- Procured computer equipment, office equipment, and supplies for the Yei branch.
- Began community outreach and borrower group formation out of the Yei branch office in early September. By the end of September, approximately 85 clients (36% women) had been formerly registered by SSAEFI, with Ush. 1.4 million (about \$700) collected in compulsory savings.
- Assisted SSAEFI staff and Board to develop the grant proposal. After review, scoring, and negotiation with SSAEFI on the budget, Chemonics forwarded the grant application to USAID for approval at the end of September.

For the fourth quarter, July 1 – September 30, 2003, the major AEFPP activities will be to:

- Continue construction of the MFI office in Yei.
- Issue the first advance of funds under the grant to SSAEFI, and continue community outreach and borrower group formation in Yei, and issue first loans to registered clients.
- Conduct a survey and study of the financial needs of returned refugees and returned IDPs.
- Finalize SSAEFI's operations manual and systems for the group loan product.
- Conduct one-day Board of Directors microfinance training.

1. Contractor's Report

A. Background

The Agricultural Enterprise Finance Program (AEFP) is a key part of the 5-year \$22.5 million Southern Sudan Agricultural Revitalization Program (SSARP), which is managed by the USAID Regional Economic Development Services Office for East and Southern Africa (REDSO/ESA), in close consultation with agriculture advisors based in USAID/Washington. The other SSARP components include the establishment of six agricultural training centers and a data collection and analysis center. These other activities are implemented by the Catholic Relief Services (CRS) Consortium – comprised of CRS, Winrock International, Vetrinarians sans Frontiers-Belgium (VSF-Belgium), and SUPRAID (a Sudanese NGO) – through a competitively-awarded cooperative agreement. Additionally, a Participating Agency Service Agreement (PASA) with USDA provides supplemental technical support and other resources to the SSARP through a pilot activity fund. This document serves as AEFP's *Fourth Quarterly Performance Report*, covering the period July 1, 2003 through September 30, 2003. It also describes work planned for the coming quarter.

The overall goal of the Agricultural Enterprise Finance Program (AEFP) is to establish a viable, self-sustaining financial services organization in Southern Sudan and provide access to working capital for micro-entrepreneurs. The activity directly supports aspects of REDSO/ESA's 3-year interim strategy for Sudan under Strategic Objective number 8 (SO8), "Foundation Established For Economic Recovery." It specifically supports Intermediate Result 8.2 and 8.3, "Market Support Institutions Created and Strengthened" and "Market Support Programs And Services Introduced and Expanded." SO8 is one of the four objectives which comprise USAID's Sudan Integrated Strategic Plan, 2003-2005.

Established in June 2003 and opened for business in September of the same year, the Sudanese MFI is designed to foster expanded economic opportunity among Southern Sudanese and constitute an added incentive for Internally Displaced People (IDPs) and refugees to return to their homes through the provision of microfinancial services. During the first phase (five years) of the MFI's development, a microfinance loan program is being launched, beginning with a group-based loan product in Yei, South Sudan. As it matures, the MFI will test various loan products, based on both client demand and repayment experience. Later, through a careful analysis of the willingness and capacity of borrowers to repay, it will be determined whether the MFI should diversify and offer some larger-sized loans to small businesses. Cost-recovering interest and fees are being charged by the MFI in order for it to fully cover operational costs by the end of the fifth year of the project.

A second phase of the AEFP can be exercised, based on the experience of the first five years, with the intent of transforming the MFI into a formal bank, introducing a savings component, supporting further geographic expansion, addressing small business finance needs, and achieving full financial self-sufficiency by covering all financial costs, including the opportunity cost of capital. USAID will determine the disposition of the loan capital fund at the end of Phase I, but anticipates that a successfully operating microfinance institution will be allowed to retain the fund as its loan capital, if AEFP objectives have been achieved and are likely to be sustained in the future.

AEFP is intended to support individual agribusiness entrepreneurs, very broadly defined, in all agriculture sub-sectors, including qualified applicants that have graduated from the training centers to be supported by other components of the Southern Sudan Agriculture Revitalization project. Women will constitute a special target group for microlending services. To increase the likelihood of sustainability

through achieving some economy of scale, people in regional population centers will be the main beneficiaries of Phase One.

AEFP Oversight. The Southern Sudan Agricultural Enterprise Finance Program (AEFP) is guided by the SSARP Program Steering Committee. This committee meets biannually and identifies focal areas for program coverage and formulates and concurs with major policies that guide the program. The 10-member Program Steering Committee is comprised of USAID, Natural Resources Management and Utilization Committee (NRMUC), the Development Assistance Technical Team (DATT), and the Southern Sudan Commissioners of Agriculture and Animal Resources, Wildlife and Tourism, Finance, Commerce, Education, Health, and Women and Family Affairs.

Additionally, AEFP receives guidance and support on implementation matters from a Technical Task Force (TTF). The 17-member TTF meets quarterly and is comprised of representatives from the Southern Sudan Departments of Agriculture, Forestry, Fisheries, and Livestock; representatives from the Secretariats of Wildlife and Tourism, Commerce, Finance, and Women and Family Affairs; representatives from the Nuba Mountains and Southern Blue Nile regions; DATT; NRMUC; the Data Center; USAID; and the Chiefs of Party from Chemonics and CRS.

B. Expected Results

Under its 5-year contract as the implementing contractor, Chemonics International has committed to establishing a self-sustaining microfinance institution (MFI) in Southern Sudan that will achieve the following performance measures by the end of Phase One:

- \$3 million in outstanding loans by the end of the fifth year;
- 100 percent operational sustainability, through complete coverage of operating costs of administration and expendable supplies; and
- At least three loan products available to clients by the end of the fifth year.

To reach these results, Chemonics is also intent on assisting the new Sudanese MFI to meet the following operational and social development parameters:

- 50 percent of loans made to women
- 10 percent of loans made to reintegrated internally-displaced persons (IDPs) and returned refugees

While adhering to a strict financial systems model of microfinance services delivery, these social development parameters will be fully incorporated into the new MFI's initial mission statement and business plan.

C. Year One: Current AEFP Activities

The first year work plan covers the period October 1, 2002 through September 30, 2003. In the first year work plan, Chemonics is responsible for ensuring that the following six major Subcomponents are addressed:

1. Building Relationships
2. Assessing the Sudan Context for Microfinance

3. Establishing MFI Infrastructure and Project Operations
4. Establishing MFI Operations
5. Selecting and Training MFI Staff
6. Program Management and Reporting

Below, each of the AEFPP subcomponent activities are summarized, highlighting tasks accomplished in the Fourth Quarter (July 1 – September 30, 2003), and tasks planned for the Fifth Quarter (October 1 – December 31, 2003) as contained in the first and second year work plans. The task numbering for the first year corresponds to the task numbers for each activity in the first annual work plan. Tasks for the next quarter are taken from the second year work plan and correspond to the task numbers for each activity planned in year two. The Year One and Two Work Plan Charts are included for reference in Annex A of this document.

C1. Subcomponent 1: Relationship Building

Establishing and protecting sound working relations with counterparts at all levels is critical to project success. The “buy-in” of local leaders and institutions to the objectives of the AEFPP is vital to establishing the credibility of the MFI and to its long-term sustainability.

Subcomponent 1: Tasks completed in the fourth quarter, July - September, 2003:

Task 1.3: Meet with SSARP Program Steering Committee. The SSARP Program Steering Committee (PSC) met in Nairobi on September 2. SSARP partners briefed the members present on progress to date, including lengthy discussions on sitting fees for TTF and PSC members, selection of Boards of Trustees for the agricultural training centers, and the microenterprise market survey.

Task 1.4: Meet with the SSARP Technical Task Force. The Technical Task Force met in Yei, Sudan from August 15-16, 2003. Originally planned to be in Yambio/Nzara, the meeting venue was changed because the charter flight could not land in Yambio due to heavy rain. At the meeting, partners presented their progress from the preceding quarter, as well as their plans for moving forward. Second annual workplans were presented and discussed, and then approved by the TTF, except for the USDA workplan which was not yet completed due to a need for further stakeholder consultation and input. Additionally, for the microfinance component, the Memorandum of Association for SSAEFI was distributed. The next TTF meeting was tentatively set for October 29-30 in Yambio/Nzara. This was later changed to October 30-31 in Yei, to coincide with the visit to Sudan by USAID administrator, Andrew Natsios, scheduled to be in Yei on October 29.

Task 1.5: Meet with SSARP Secretariat. The SSARP Secretariat met as a group before and after the TTF meeting in Yei on August 15-16, 2003, as well as on September 1, 2003, prior to the PSC meeting. Discussions were held concerning actions taken on the instructions given by the TTF to the Secretariat, as well as how to move forward with the USDA second year work plan, which still needs TTF approval. The next Secretariat meeting will be scheduled to happen before the October 2003 TTF meeting.

Task 1.6: Establish relationships with other donors, NGOs, and stakeholders, as necessary. The Sudan AEFPP team continued the ongoing process of establishing relationships with a broad range of stakeholders and people with knowledge of Southern Sudan. Specific attention was placed on assisting the new MFI, SSAEFI, to establish its own identity and relationships with authorities and other stakeholders in Yei, separate from Chemonics and the AEFPP program.

C2. Subcomponent 2: Assessing the Sudanese Context for Microfinance

In order to set up the strongest microfinance operation possible and begin in the market areas with the highest potential for success, the AEFP team added short-term technical expertise assessed a range of potential market areas in the third quarter, as well as finished conducting a microenterprise market survey of existing enterprise and client financial needs in four regions of South Sudan.

Subcomponent 2: Tasks completed in the fourth quarter, July - September, 2003:

Task 2.8: Develop TOR for Study of IDP microfinance opportunities. Based on the initial findings of the microenterprise market survey, as well as the initial start-up activities in the Yei office and input from the SSARP TTF and PSC members, a terms of reference (TOR) for a study of microfinance opportunities among resettled IDPs and returned refugees was developed in September 2003. The actual study will take place in the next quarter. Given the target of 10 percent of the loans to IDPs in the Chemonics AEFC contract, this special research will be conducted into the microfinancial needs and economic situation of returned refugees and resettled IDPs in order to find ways to effectively integrate them into SSAEFI's outreach plans or to reach them through other microfinancial interventions.

C3. Subcomponent 3: Establish MFI Infrastructure and Project Operations

Because of the longstanding civil conflict in Sudan, physical infrastructure is in poor condition. The office spaces for the MFI head office in Yei will be built from the ground up, for security and operational requirements and because of the lack of suitable buildings in the town. Additionally, once the MFI office is established, it will be important for the AEFP program staff to allow the institution to operate autonomously. Therefore, the AEFP staff will operate separately from the MFI. This will be done through the use of CRS facilities as opposed to setting up a self-contained base camp for Chemonics.

Subcomponent 3: Tasks completed in the fourth quarter, July – September, 2003:

Task 3.1: Construct/refurbish MFI head office. Construction of the Yei office by Bros & Company began in July 2003. On behalf of AEFP, this activity is being overseen by James Oryema, operations/logistics manager, who will be onsite in Yei for most of the period. He receives technical assistance and input from the CRS engineer, who is currently resident in Yei, as well as the architect in Nairobi who designed the office. The construction experienced a series of delays during the fourth quarter due to uncontrollable external factors. First, Yei town ran out of cement for a period of about two weeks, as the Yei-Kaya road was hit by heavy rains and the trucks were unable to get through. After cement arrives, Yei town then ran out of locally-produced bricks, due to the sharp increase in local construction this year. More bricks will not be produced until labor is freed from the current agricultural season and the weather is dry enough for baking the bricks effectively. Therefore, after consultation with the architect and SSAEFI Board, as well as a canvas of local alternatives, it was decided to change the office construction from bricks to a larger block made from the same material but which is readily available in Yei, as it has not been used by the other construction activities. The result is a delay of about one month in the expected completion date of the office, now scheduled for the end of December 2003.

Task 3.2: Construction/refurbishment of the second MFI office. While originally envisioned to occur during the first year of AEFP, construction/refurbishment of a second MFI office will be delayed until Year Two. This will allow the AEFP team to focus on the start-up of the MFI operations in Yei,

including staff training, the development of the operations manual and systems, and community outreach and borrower group formation. Construction/refurbishment of the second and third MFI offices will begin as soon as possible in Year Two. It is expected that the MFI will expand operations to Yambio and Maridi simultaneously.

C4. Subcomponent 4: Establish MFI Operations

At the centre of the AEFPP workplan activities for the first year will be the establishment of the new Sudanese microfinance institution (MFI) operations.

Subcomponent 4: Tasks to be completed in the fourth quarter, July – September, 2003:

Task 4.2: Train Board of Directors. Training of the Board of Directors, including familiarizing them with microfinance, began in July 2003, in conjunction with the first official Board meeting and the training of the other MFI staff in Yei. Board members were briefed on the AEFPP program, the Chemonics contract requirements, AEFPP work completed to date, the draft business plan for the MFI including the vision statement, basic microfinance concepts, their role as Board members, and basic information on governance. A second Board meeting was held in August to begin formalizing some of the institutional structures and arrangements. Board training will be ongoing for the life of AEFPP.

Task 4.8: Develop and issue grant to the MFI. At the second Board meeting, the required grant application process for obtaining the operational and loan capital funding from USAID (through Chemonics) was discussed. Basic benchmarks were agreed upon, including outreach targets, loan portfolio quality standards, and efficiency ratios. Additionally, a draft budget was presented and discussed, showing revenue targets, a projection of expenditures, cash flow projections, and the resulting operational efficiency ratios, reaching the required 100 percent efficiency by September 2007. Board members wanted more time to go over the budget and the grant application, so a follow-up meeting was scheduled for October 1, 2003, after which the grant application will be reviewed and scored by Chemonics, before sending on to USAID for approval.

Task 4.9: Develop MFI Operations Manual and Systems. In tandem with developing the pilot loan products, a credit policies and procedures manual for the group loan operating systems will be developed for SSAEFI. The completion of the manual will be an ongoing process as SSAEFI grows and expands to new branches and adds new loan products.

Task 4.10: Design Loan Products. Using the information gathered in the microenterprise market survey, as well as input from Uganda Microfinance Union in Uganda, and the new SSAEFI staff, a pilot group-based loan product was developed. In summary, the group loan requirements and parameters are:

- Borrowers form their own groups of five members. Each member pays Ush2,000 membership fee and Ush2,000 for a passbook.
- Groups must save at least 16 percent of the total value of the combined five loans the group will receive in the first disbursement. They must build this compulsory savings – a loan insurance fund against default – up to 20 percent before the second loans will be disbursed.
- All groups save for at least six weeks prior to getting their first loans. During this period, they meet weekly with SSAEFI staff to receive training in the loan requirements and guidance in group formation, including selecting a chairperson, setting group rules, and agreeing on informal collateral arrangements among group members.

- Loans are for working capital and are for an initial four months duration, at an interest rate of three percent.
- The maximum loan for first-time borrowers is set at Ush200,000, with subsequently larger loan maximums available after each successful repayment.

C5. Subcomponent 5: MFI Staff Selection and Training

Because of the importance of training in this microfinance activity, we have included it as a separate activity, though it will be fully integrated with the MFI operational development activities in Subcomponent 4 above. For the initial phase of institution building, we anticipate beginning with a professional staff of five, including:

- A general manager to manage the institution;
- A branch manager for Yei;
- Two loan officers to form groups and manage loan portfolios;
- An accountant/bookkeeper to process loans.

Branch offices should ideally contain a branch manager, assistant manager, a secretary, loan officers, cashier(s), and guards. We will determine the number of field agents for each branch depending on the lending methodologies (individual credit, solidarity group, village bank) used.

Subcomponent 5: Tasks completed during the third quarter, July – September, 2003:

Task 5.2: Train Managing Director, including trips to Kenya and Uganda. Two potential candidates have been identified. One was interviewed in Yei in September, and the second will be interviewed in Nairobi in October. Once he or she is hired, the training will include site visits and “on-the-job” training at an MFI in Uganda, formal training in microfinance, and constant mentoring by the AEFPP team.

Task 5.4: Hire and train MFI staff, including trips to Kenya and Uganda. Five potential loan officers received training from the AEFPP team in August. Of these five candidates, two were hired as loan officers and one was hired as a bookkeeper/cashier. The other two staff will possibly be hired later when the MFI has enough clients to justify the added staff. The two loan officers hired, as well as the SSAEFI branch manager for Yei and the head office accountant, received follow-up exposure and training at Uganda Microfinance Union for two additional weeks in August.

Task 5.5: Begin community outreach and borrower group formation. During the two-week staff training in July, staff were trained in community outreach and borrower group formation. After finishing the two-week exposure and training visit to UMU in Uganda in August, the MFI staff returned to Yei and began community outreach and borrower group formation efforts in early September. After three weeks of outreach, over 500 interested clients had come to the SSAEFI office for additional information. Of these people, 85 were officially registered as clients by the end of the quarter.

C6. Subcomponent 6: Program Management and Reporting

AEFP implementation will require a number of program management and reporting activities, as required in the Chemonics’ contract and agreements made with the SSARP Program Steering Committee and Technical Task Force. These program management and reporting activities are listed

below. Others may be added during the course of program implementation.

Subcomponent 6: Tasks completed during the fourth quarter, July – September, 2003:

Task 6.1: Submit quarterly report. The quarterly report for the third quarter (April 1 – June 30, 2003) was submitted on time to USAID and the TTF in August 2003.

Task 6.4: Develop grants management manual and obtain CO approval. Chemonics responded to questions and issues brought to us by USAID after they completed their review of the draft grants management manual. After integration of USAID's comments, the grants manual was re-submitted to USAID and approval of the manual was obtained in late September 2003.

Task 6.5: Submit draft Year Two workplan. The AEFP Year Two workplan was developed in July and August for presentation to the SSARP TTF and Program Steering Committee in August. After a few suggested modifications, the TTF approved the AEFP Year Two Work Plan at the TTF meeting in Yei on August 15-16, 2003. Later, at the PSC meeting in Nairobi on September 2, the PSC endorsed the AEFP Year Two Work Plan, as well.

D. Year Two Work Plan: Tasks for the Fifth Quarter (October – December 2003)

The second year work plan covers the period October 1, 2003 through September 30, 2004. In the first second work plan, as approved by the TTF and USAID, Chemonics is responsible for ensuring that the following six major subcomponents are addressed:

- Establish and Develop MFI Operations
- Expand MFI Geographic Coverage
- Develop Loan Products
- Training
- Microfinance Policy and Regulation
- Program Management and Reporting

Below, each of the Year Two AEFP subcomponent activities are summarized, highlighting upcoming tasks planned in the Fifth Quarter of the program (October – December, 2003) as contained in the second year work plan. Tasks for the next quarter are taken from the second year work plan and correspond to the task numbers for each activity planned in year two. Both the Year One and Two Work Plan Charts are included for reference in Annex A of this document.

D1. Subcomponent 1: Establish and Develop MFI Operations

Establishing and developing MFI operations will be the central task of AEFP year two activities. This will include community outreach in each of the communities where branches are opened, borrower group formation and training, development and institutionalization of the MFI operations systems (including the drafting of an operations manual), and the development of an integrated MIS system for multiple branches. Finally, it will also include capacity development of the MFI Board of Directors.

Subcomponent 1: Tasks to be completed in the fifth quarter, October – December, 2003:

Task 1.1: Continue community outreach and borrower group formation in Yei. SSAEFI staff will continue community outreach and borrower group formation in Yei, following the client intake projections jointly created by SSAEFI staff and AEFPP trainers during the SSAEFI staff training in microfinance in August.

Task 1.3: Board of Directors meetings and capacity development. A series of Board meeting are planned for the next quarter. This will include normal Board meetings to agree on institutional policies for personnel, loan portfolio management and systems, staff incentives, and other issues. A special meeting in early October will be called to finalize the SSAEFI grant application to USAID (through Chemonics) for operational and loan capital funding. In addition, a one-day training in basic microfinance will be offered to the Board in late October by Irene Karimi, the AEFPP microfinance specialist. Finally, the Board will also attend a microfinance exposure tour of Uganda Microfinance Union (UMU) in Kampala on November 7, 2003.

D2. Subcomponent 2: Expand MFI Geographical Coverage

During year two of the program, the AEFPP team will assist the SSAEFI staff and Board of Directors to expand operations to at least two additional communities in South Sudan, Yambio and Maridi. Additionally, initial expansion efforts will begin in a fourth community late in year two, likely Rumbek. Actual lending in this fourth community will be started later in year three of AEFPP.

Subcomponent 2: Tasks to be completed in the fifth quarter, October – December, 2003:

Task 2.1: Complete construction of the Yei office. Construction of the Yei office by Bros and Company will continue through the fifth quarter. The completion of the construction is now set for December 2003, approximately one month later than originally planned. The delay has occurred due to absences of needed cement and bricks in Yei during the construction period.

Task 2.2: Identify office spaces in 2nd and 3rd office locations. Working closely with the SSAEFI Board and key head office staff, AEFPP will identify available office spaces or plots in Yambio and Maridi. Based on the spaces selected, either construction or refurbishment plans will be developed and agreed upon with SSAEFI.

D3. Subcomponent 3: Develop Loan Products

Using the information gathered in the microenterprise market survey, at least two pilot loan products will be developed in year two of the AEFPP. The first two loan products will be a group-based loan product and an employer-guaranteed loan product available to employees of NGOs and other institutions in the communities where SSAEFI branches are opened. Over time, an individual loan product, aimed at larger microenterprises with greater capital needs, will be introduced.

Subcomponent 3: Tasks to be completed in the fifth quarter, October – December, 2003:

Task 3.1: Extend group loans in Yei. SSAEFI began registering clients through the group loan product beginning in September 2003. Each member of the 5-person group must contribute savings for six weeks as part of the loan insurance non-formal guarantee prior to receiving their loan. The loans to the first registered group members in Yei will be issued on October 27, 2003, with new loans being issued to new groups on a regular basis thereafter. Extension of group loans will go on indefinitely for the life of the

institution, though some modifications to the group loan requirements may be made over time.

D4. Subcomponent 4: Training

Because of the importance of training in this microfinance initiative, we have included it as a separate activity, though it will be fully integrated with the MFI operational development activities in subcomponent one, above. Training activities are a critical counterpart to establishing and developing the MFI operations, as well as expanding the MFI's geographical coverage and developing and delivering each of the loan products.

Subcomponent 4: Tasks to be completed in the fifth quarter, October – December, 2003:

Task 4.4: Microfinance exposure trip to Uganda for Board of Directors. The five-member Board of Directors will attend the one-day microfinance exposure tour of Uganda Microfinance Union (UMU) in Kampala. They will be briefed by UMU staff on the history and current status of the organization, followed by a tour of a branch office. This tour will be followed by lunch and an information discussion and question and answer session between the SSAEFI Board and UMU staff. Prior to this trip, the Board will also receive a one-day intensive training in basic microfinance from Irene Karimi, AEFP microfinance specialist, on October 25, 2003.

D5. Subcomponent 5: Microfinance Policy and Regulation

As SSAEFI is setting up operations, SPLM policymakers will be developing a financial regulatory framework for South Sudan. A Financial Institutions Act, a Business Law, and an NGO Law have all been recently signed and put in place. It will be critical for the AEFP program to stay abreast of these policy developments and their implementation, especially as they will affect how the microfinance is or is not regulated. As possible, the South Sudan AEFP will provide guidance and resources to assist in the policy development process as it affects microfinance. The tasks for this subcomponent are necessarily broad, as the exact nature of the policy assistance will need to be agreed upon with the SPLM and USAID.

Subcomponent 5: Tasks to be completed in the fifth quarter, October – December 2003:

Task 5.1: Liaise with SPLM policymakers regarding microfinance policy. The AEFP chief of party and microfinance specialist will liaise with the relevant SPLM authorities regarding the financial framework that has been signed. Special attention will be given to areas that will possibly affect AEFP efforts to set up a sustainable and independent microfinance institution in South Sudan. As possible, South Sudan AEFP will provide guidance and resources to assist in the policy development process as it affects microfinance. Possible areas of attention include integrating microfinance best practices regarding policy into the Financial Institutions Act and Business Law, and attention to specific policy issues that affect MFI operations, such as interest rate policies, registration and taxation policies, and regulation and financial reporting requirements.

Task 5.2: Provide training and/or short-term policy expertise as needed. In support of the SPLM's policy implementation efforts, South Sudan AEFP can provide specialized training and short-term technical expertise as needed. Given the focus on setting up the MFI operations in Yei, this will likely not happen until later in Year Two.

D6. Subcomponent 6: Program Management and Reporting

The second year of AEFP will continue to require a number of program management and reporting activities, as required in the Chemonics' contract and agreements made with the PSC and TTF. Activities in this subcomponent for the fifth quarter are listed below.

Subcomponent 6: Tasks to be completed during the fifth quarter, July – September, 2003:

Task 6.1: Submit quarterly report. The quarterly report for the fourth quarter (July 1 – September 30, 2003) is this report, and will be submitted to USAID and the TTF before the end of October.

Task 6.2: Submit Year Two work plan. The Year Two work plan was submitted a month early – to the TTF for approval in August 2003, and to the PSC for endorsement in September 2003.

Task 6.4: Conduct Returned Refugee and Returned IDP Study. Based on the terms of reference (TOR) for a study of microfinance opportunities and financial needs among resettled IDPs and returned refugees developed in September 2003, a short-term consultant specializing in microfinance in conflict areas, Fion de Vleter, will be fielded to conduct the study. Target locations will be those communities expecting high numbers of returnees, including Nimule, Ikotos, and possibly Labone in Eastern Equatoria; and other communities in Upper Nile and Nuba Mountain regions. USAID and TTF and PSC stakeholders will be consulted to determine the best locations to conduct the study.

Task 6.6: Develop grant reporting system. Once the grant from USAID (through Chemonics) to SSAEFI is approved, SSAEFI will be issued its first tranche of funding for one month of operations, including both operational costs and anticipated loan capital needs. During the first three months of implementing the grant, AEFP staff will carefully train the SSAEFI accountant and other staff in the grant reporting requirements, both technical and financial. These requirements will be explicitly laid out in the written grant agreement signed between SSAEFI and Chemonics. After the SSAEFI staff are fully trained in the system, advances will be given to SSAEFI on a quarterly basis.

Task 6.7: Establish monitoring and evaluation system. As required in the AEFC contract between Chemonics and USAID, an M&E system will be developed in the fifth and sixth quarters of the program. This system will capture quantitative data from SSAEFI, as well as qualitative data, focusing on significant events with the MFI and success stories among borrowers.

E. Performance

Current status vs. expected end of contract results. Chemonics International is committed to establishing a self-sustaining microfinance institution (MFI) in Southern Sudan by the end of the 5-year contract in September 2007. Below, each other project results is listed, followed by its current status:

Expected end of project results:

- *\$3 million in outstanding loans by the end of the fifth year.*

Current Status: The first loans are scheduled to be issued on October 27, 2003. No loans have yet been made, though by the end of September, approximately Ush1.4 million (\$700) had been collected in compulsory savings from 85 registered members as part of the group lending program. Additionally, Ush160,000 (\$80) had been collected for membership fees, and another Ush160,000 for purchase of passbooks. Among the first client intake, approximately 36 percent are women.

- *100 percent operational sustainability, through complete coverage of operating costs of administration and expendable supplies.*

Current Status: The Sudanese MFI has now been established, and has collected Ush320,000 in revenue from membership fees and passbook fees. The updated business plan projects 100 percent operational self-sustainability by September 2007. The updated business plan also uses 100 percent operational self-sustainability as a key milestone and indicator of success. Using only current SSAEFI staff salaries as a cost base, revenues for September covered approximately 9 percent of the staff salary expenses.

- *At least three loan products available to clients by the end of the fifth year.*

Current Status: Lending has begun with a group loan product, beginning with community outreach and borrower group formation in early September 2003. The product may be adjusted based on the initial lending experiences and input from clients. Other products will be added over time, and are expected to include an employer-guaranteed loan product and an individual (secured) loan product.

To reach these results, Chemonics is also intent on assisting the new Sudanese MFI to meet the following operational and social development parameters:

- *50 percent of loans made to women*

Current Status: SSAEFI began registering clients in early September 2003. Of the initial 85 clients registered in the first three weeks, 36 percent are women.

- *10 percent of loans made to reintegrated IDPs and returned refugees*

Current Status: Discussions are needed with the SSARP Technical Task Force on how best to define and track this target group. If possible, the definition will be integrated into the MFI's loan disbursement system in order to make tracking as easy as possible. Of the initial 85 clients registered by SSAEFI, virtually all of them indicate they have either been a refugee or an IDP at some point in their lives. A specialized study focused on the financial needs of returned refugees and returned IDPs will be conducted early in the next quarter.

Annex A:
AEFP Year One & Two Work Plan Charts
